BRUARY 19

THE SOCIETY OF INDUSTRIAL & COST ACCOUNTANTS OF CANADA
INCORPORATED 1920

Cost and Management

Editorial Comment

With the February 1958 issue, *Cost and Management* presents an entirely new face to its public. The transformation is the product of much deliberation and hard work by the Publications Committee. We hope you like it.

The changes were made, upon the authorization of the Board of Directors, with but one thought in mind—to enhance the value of the journal to its 7,500 readers.

In determining the content of the new *Cost and Management*, the Publications Committee was motivated by two objectives: to add significantly to the type of authoritative reference literature into which the reader can delve at his leisure now or in the future; and to keep the reader abreast of current developments in the business world.

For the present we will continue to publish three or four technical articles, which will be chosen for their contribution to thought and practice in the fields of accounting and financial management.

"C. & M. Round-up," having enjoyed such wide acceptance, will be retained under the new title "Topical Comments," providing coverage in capsule form of items of interest over a wide range of subjects.

Two new features have been introduced. In a practical vein, "Profit Pointers" is a collection of simple, workable ideas that the members have found helpful and often cost reducing. If the hope of the Committee—that the members will contribute beneficial ideas from their own experience—is justified, this department of *Cost and Management* should be of great practical value in promoting an exchange of ideas. Though the majority of items in this section will not be original, they may be new to many.

The second new feature is "The Economic Scene". The material for this department will be specially written for *Cost and Management* by Prof. W. Allan Beckett of the Institute of Business Administration, University of Toronto. Prof. Beckett majored in political science and economics at the University of Toronto, receiving his M.A. degree in 1949. After serving four years as economist with the Saskatchewan Labour Department and four years in the Department of Trade and Commerce in Ottawa, he joined the Institute last October as instructor in statistics and labour relations. In his department Professor Beckett will review each month some particular development in the Canadian economy of special interest to those in financial management. His comments will not attempt to prognosticate, but rather to interpret the implications of events on the economic scene. In so doing, it is expected he will not only draw the

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reader's attention to important economic developments, but will demonstrate how these developments can be interpreted and utilized in business planning. Professor Beckett is well qualified to present an authoritative commentary on the economic scene and we are fortunate indeed in securing his services.

The readers of *Cost and Management* have a proprietary interest in its welfare. It is your journal, and it is for you to say if the steps taken by the Committee have achieved the desired result. The Committee awaits your verdict in trepidation and anticipation.

To introduce the members of the Committee, they are:

A. Padmos, R.I.A., Manager, Plant Accounting, Ford Motor Company of Canada Ltd., Toronto

J. Logan, R.I.A., Secretary and Chief Cost Accountant, Ferranti Electric Ltd., Toronto

E. F. Stevens, C.A., A.C.W.A., Resident Consultant, Urwick, Currie Ltd., Toronto

A. M. MacIntosh, R.I.A., Office Manager, Lawson & Jones Ltd., Toronto

C. J. Casey, Accountant, Deacon Brothers Ltd., Belleville

"CONGRESS BOOK 1957" AVAILABLE

The Committee of the Seventh International Congress of Accountants, held in Amsterdam last September, announces that it will publish a full account of the conference proceedings this Spring.

This "Congress Book 1957" will contain reprints of the 31 reports presented at the Congress on the following subjects: Principles for the Accountant's Profession, Verification of the Existence of Assets, Budgeting and the Corresponding Modernization of Accounting, The Internal Auditor, Business Organization and the Public Accountant, and Ascertainment of Profit in Business.

In addition, the 700-page book will contain texts of the speeches delivered at the opening and closing sessions, together with summaries of all reports and a verbatim account of the discussions. All Dutch, French and English texts relating to the business sessions will be translated into English.

The book, bound in hard cover and containing many illustrations, will sell to non-participants at f. 25. per copy. As the first edition will be limited, orders should be placed in advance directly with the Congress Committee or through the Society of Industrial and Cost Accountants, 31 Walnut St. South, Hamilton, Ontario before February 25, 1958.

THE FORD PLAN FOR SUPPLEMENTAL UNEMPLOYMENT BENEFIT*

By R. R. Lisson,
Industrial Relations Manager, Ford Motor Co. of Canada, Oakville, Ontario.

In a period of widespread unemployment, particularly in the auto industry, the following plan pioneered by the Ford Motor Company in the United States sets a pattern for the establishment of supplemental unemployment benefits, which deserves serious consideration by responsible management. Accepted by the United Auto Workers' Union in lieu of a guaranteed annual wage plan, the benefits are briefly outlined in this article.

The Ford Motor Company in the United States spent three years intensively researching and laying the ground work for the Supplemental Unemployment Benefit Plan as we know it today. All other such programs are patterned on their developments.

Ford-U.S.'s research included much analysis within the company, and all interested components of the company participated. It also included many and wide discussions with outside companies, organizations, individuals, technicians, economists, actuaries, and others.

The company felt that the United Auto Workers' original guaranteed annual wage demand, as such, was wrong, in principle, because:

1. It contained an unlimited liability.
2. It had unpredictable costs.
3. It would have destroyed the incentive of laid-off men to find employment.
4. It would have created serious inequities between those working and those not working.
5. It would have effectively sabotaged the Government Unemployment Insurance Program.
6. Its administration, as proposed, would have been prohibitively expensive and would have duplicated Unemployment Insurance machinery.
7. It would have provided inadequate protection for employees with longer service or seniority.

* This address formed part of a panel discussion on "the Guaranteed Annual Wage" presented to the Niagara Chapter of the Society of Industrial and Cost Accountants on October 16, 1957.

Mr. Lisson has been with Ford of Canada for the past ten years. At present industrial relations manager of the Oakville plant, he has held various managerial positions in the personnel and industrial relations departments, both in the Oakville and Windsor assembly plants. He is an arts graduate of McGill University, a member of the Toronto Personnel Association and a director of the Hamilton Personnel Association.

8. It would have required the expenditure of considerable amounts of money.

The company believed, though, that there was perhaps a special responsibility to cushion the effects of model change layoffs, and that they should consider allocating an economic package to the cushioning of such layoffs.

PURPOSE OF THE PLAN

Thus, the Supplemental Unemployment Benefit Plan was founded and established on the twin principles of limited liability and predictable maximum costs. The purpose of the plan was to supplement, by private means, the Unemployment Insurance Commission's payments to hourly-rated men during layoffs. The company believed that the decision to supplement unemployment benefits would be particularly justified with respect to short-term layoffs, when the employee's opportunity to find other work is relatively limited. Basically, the plan is intended to assist all eligible employees in weathering layoffs. Benefits paid under the plan, however, would not be so high as to discourage a worker from seeking other employment, particularly when his layoff is of long duration.

The Supplemental Unemployment Benefit Plan, as evolved after a long period of study by the Ford Motor Company in the United States, was offered to the Union, and was agreed upon practically without change in substance. As you will see, it is not a plan for guaranteed annual wage.

I propose to outline the plan under five main headings:

1. Financing
2. Eligibility for benefits
3. Amount of benefits
4. Duration of benefits, and
5. Administration

FINANCING

Under the plan, a trust fund is set up, entirely financed by company contributions, from which benefits are paid to eligible employees.

The company's contributions to this fund constitute its sole liability under the plan. The company's financial obligation under the plan is fixed at a limited contribution of 5c for each hour for which covered employees receive pay. However, no contributions to the trust fund are made when it is fully funded.

Thus, the company can predict costs.

A maximum limit of \$3,600,000, considered adequate to meet the benefit obligations of our Ford of Canada plan, was chosen as the amount to be built up in the fund.

This maximum funding limit is recalculated at the first of each month and the amount is raised or lowered according to changes in production figures.

Here's how it is done:

$$\$3{,}600{,}000 \times \frac{\text{No. of employees on active roll plus No. of employees on inactive roll (with credits)}}{\text{No. of employees on roll prior to August 1, 1956}}$$

The company's contributions to the fund stop when the maximum limit is reached and start again when the fund falls below the 100% level of \$3,600,000.

ELIGIBILITY FOR BENEFITS

Laid-off employees become eligible for benefits by accumulating what we call credit units and by meeting certain other eligibility requirements.

A credit unit has no fixed value in terms of time or money—it is simply a means of translating the employee's service into benefit eligibility and duration under the plan.

Credit units are not in the form of tokens or certificates—they are simply calculated on the basis of pay records for all employees who have at least one year's seniority. It is not necessary to keep a running account of each employee's credit units.

An employee who has accumulated credit units may receive benefit payments if he—

1. is on layoff
2. has not refused other work offered by the company
3. is eligible for Government Unemployment Insurance
4. is not receiving any sickness or accident benefits financed by the company, and
5. has reported to a designated company location and applied for benefits.

For the first two years of the plan, employees receive one-quarter or one-half a credit unit (depending on their length of service) for each week worked.

This prevents a heavy drain on the fund in its early stages. After the first two years, all employees receive one-half a credit unit for each week worked. No employee may accumulate more than 26 credit units at any one time.

You can see that supplemental unemployment benefits are intended to supplement and not replace the Federally administered Unemployment Insurance. The employee must qualify for and actually receive Unemployment Insurance benefits, and he must be unemployed for the same reasons acceptable to the Unemployment Insurance Commission.

AMOUNT OF BENEFITS

The amount of benefit received depends on the employee's wage rate with the company, the amount provided by Unemployment Insurance and the amount earned in any other employment while laid off.

The duration of benefit payments—that is the number of weekly benefits an employee may receive—depends on the trust fund position at the time of layoff and the number of credit units the individual employee has acquired through weeks of work.

When the plan was formulated, it became obvious that fixed amounts of benefits could not be paid for fixed maximum periods without subjecting either the company or the trust fund to an unknown liability.

It was determined then that this risk could be avoided if either the benefit amount or the benefit duration were variable. The company found that if benefit duration were variable, rather than the benefit amount, the average employee would not be adversely affected during most layoffs. Therefore, the course of variable duration was adopted and was accomplished by relating the number of credit units required for one weekly benefit to the current trust fund position.

When the trust fund position is 85% or more, only one credit unit is required in exchange for one week's benefit. When the trust fund position is at lower levels—as could happen during the early stages of the plan, or because of heavy layoff experience —the exchange rate for credit units becomes less favourable. For example, when the trust fund position is between 13 and 21.99% an employee with less than five

years' seniority would have to surrender five credit units for one benefit.

High seniority employees have an advantage over their fellow workers with lower seniority in the exchange of credit units for benefits except when the trust fund position is 85% or more, at which point the rate of exchange for all employees is the same. Below this point, high seniority employees have to surrender less credit units for benefits than low seniority employees.

We break down the benefits into two categories—special or regular.

A special benefit is an amount which has been added to the Government Unemployment Insurance and any earnings from other employment, and equals 65% of the employee's straight-time wages, after taxes, for a 40-hour week. A regular benefit is an amount which when added to Government Unemployment Insurance and any earnings from other employment equals 60% of the employee's straight-time wages, after taxes, for a 40-hour week.

For example, assume an employee is laid off, and prior to layoff he was earning $1.80 per hour including Cost of Living Allowance. His earnings for a 40-hour week were $72. If his income tax and unemployment insurance totalled $5 he would be left with, after taxes, $67. Sixty-five per cent of his after-taxes earnings would amount to $43.55, and 60 per cent would amount to $40.20.

He had no earnings from other employment, and he received governmental unemployment insurance of $30 per week. His weekly special benefit under the plan then would be $13.55 per week, and the weekly regular benefit would amount to $10.20. In other words, his benefit under the plan would be the difference between 65% or 60% of his after-taxes earnings and the amount of Government Unemployment Insurance.

Suppose, however, that he earned $13 (the amount allowed to be earned without reducing the Government Unemployment Insurance). His Government Unemployment Insurance, plus earnings, would then amount to $43—just 55c less than 65% of his after-tax weekly earnings. In that case, he would not get a benefit under the plan, since the minimum benefit payable is $2.

No benefit under the plan can exceed $25.

DURATION OF BENEFITS

Special benefits are paid for a maximum of four or eight weeks in any year, depending on the amount of money in the fund.

If the amount of money in the fund is less than 49% of the maximum funding amount of $3,600,000, an employee cannot receive special benefits for more than four weeks in the aggregate in any one year. If the fund is at the 49% level or above, then an employee can receive benefits up to eight weeks in the aggregate in any one year.

After his special benefits are exhausted, an employee may receive regular benefits for the balance of his eligibility.

Whenever the trust fund position is below 13% of the maximum limit for the fund, benefits are reduced by 20%. Whenever the trust fund position is below 4%, benefit payments are disconitnued.

It can be seen that the benefits under the plan are indeed supplemental to Government Unemployment Insurance, and that they are certainly not guaranteed.

ADMINISTRATION OF THE SUPPLEMENTAL UNEMPLOYMENT BENEFIT PLAN

First of all, the plan provides that the company has the right to establish regulations and procedures. However, the Union may make recommendations concerning regulations and procedures.

A Joint Board of Administration is established, composed of union and company members. It is the function of this Board to exercise ultimate responsibility for determining whether a laid-off employee is eligible for a benefit and also to determine the amount of the benefit to be received.

The company makes the initial determination as to eligibility and amount of benefit. If the employee is dissatisfied he may appeal to the Joint Board of Administration.

The plan also provides for an impartial chairman to act in the event that the Joint Board cannot agree on a decision by a majority vote.

PRINCIPAL FEATURES OF THE PLAN

This briefly outlines the principal features of the plan.

There are no guarantees in the plan. There is a limit of 5c per hour on company contributions and the amount and duration of benefits is governed by the amount of money in the fund. To be eligible for benefits the laid-off employee must also be eligible for Government Unemployment Insurance.

However, the supplemental unemployment benefits do play an effective role in providing a cushioning effect when layoffs do occur.

For further reading

GUARANTEED ANNUAL WAGE PLANS AND SUPPLEMENTARY UNEMPLOYMENT COMPENSATION, by S. H. Slichter, A.M.A. Personnel Series No. 156.

NOTICE OF EXAMINATION DATES

The dates for the 1958 examinations have been set as follows:

Accounting I	Monday, April 28
Accounting II	Thursday, May 1
Industrial Legislation	Saturday, May 3
Fundamentals of Cost Accounting	Wednesday, April 30
Industrial Organization and Management	Monday, May 5
Advanced Cost Accounting	
Paper I	Tuesday, April 29
Paper II	Tuesday, May 6

For time and place of the examinations, please consult your Provincial Society.

COMING

June 24th to 27th, 1958

THE 37TH ANNUAL

COST AND MANAGEMENT CONFERENCE

AT

The King Edward Hotel

TORONTO, ONTARIO

The Theme: CO-ORDINATION THROUGH FINANCE

WHAT THE ACCOUNTING FUNCTION CAN CONTRIBUTE TO MARKETING MANAGEMENT

WHAT THE ACCOUNTING FUNCTION CAN CONTRIBUTE TO PRODUCTION MANAGEMENT

Addresses by leading authorities

FINANCIAL CO-ORDINATION THROUGH TOP MANAGEMENT

An address by a leading authority will form the basis for a panel discussion by a team of top management executives

RELATING FINANCIAL POLICIES TO THE ECONOMIC OUTLOOK

Experts will explore the economic vista from the aspects of Taxation, Trade Union Demands, the National Economy and Business Planning

EXECUTIVE HEALTH — A FAMILY AFFAIR

Advice from a panel of medical specialists on keeping fit

The ladies will be invited to attend.

THE SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF CANADA

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TOPICAL comments

by N. R. Barfoot

1958 critical year for auto makers? There seems to be a slump in car buying. According to the comment columns, the '58 models are too high priced, too flashy with chrome and frills and too high powered for economy. Hence the significant gains in the more modest looking European cars.

A low cost house is being erected by a Preston, Ontario designer and contractor. With three bedrooms and no basement, the house will cost around $7,000 plus land cost. Every possible device of design and materials to lower cost is being used. Closely watched by the contracting world and underwritten, significantly, by the Government. This could be the break-through on house cost.

Wonder oven soon on the market. An electronic oven cooks by time only, not heat. Six and a half minutes for a cake, compared to one hour in a standard oven. Eggs are prepared in 30-40 seconds and vegetables in 5-8 minutes.

Seaway tolls are estimated at .50c a short ton on bulk commodities and $1.25 per ton for general cargo. The yearly revenue for the St. Lawrence Seaway development corporation should be in the neighborhood of $28 millions.

ON THE PERSONAL SIDE

Empty seats cost TCA $435,000 annually. No-show passengers are fined $3.00 on the U.S. airlines. As a result "no-shows" are down one-half.

Over 40, and trying to get a job? It's not easy if the ads and the attitude of industry in general are any indication. However, it is established that (a) absenteeism is highest in the 20-30 age group, (b) people over 40 are about 25% safer on the job than younger employees, (c) illness incidence is 77.2% up to age 44 and 71.1% from then on, according to D.B.S., (d) tact and imagination are only achieved in the 40s.

Youth goes on until at least age 50, middle age until 70 and nobody should regard themselves as old until age 75, according to scientists of geriatrics. Perhaps Canadian industry is doing itself a disservice by insisting on under 40, in the ads for new employees.

OF GENERAL INTEREST

Those investments clubs

- They are usually made up of 10-20 members undertaking to invest fixed sums per month ($10 is usual monthly sum).

- Investments are mainly stocks of leading Canadian growth companies. Selection made by majority vote at monthly meetings.
- Some are office or plant groups, others neighbourhood groups.
- Aims and objects are regular saving, investment, education and capital growth.
- There is a Canadian Association of Investment Clubs in Toronto. In 1956 the Association had 167 clubs and 2,300 members. At this date, nearly 400 clubs and nearly 6,000 members.
- Present investment by combined clubs is $700,000 per year.
- It is estimated that there are four clubs outside the association for every one inside. The combined buying power is probably 3.5 million per annum.
- The top twelve Life Insurance companies bought only 1.3 million of preferred and common stocks last year. The securities of a number of C.A.I.C. clubs were assessed recently. At the low point of the market dip last October the average loss was 17.6%. The official index of D.B.S. showed 22.2% dip. The clubs are apparently well-managed affairs.

Presidential Decisions

A recent survey showed that major decisions by presidents were in the following order of importance:

(1) Corporate policy.

(2) Selection of key executives.

(3) Organizational structures.

(4) & (5) Diversification, plant expansion and capital expenditures.

Comments on group or committee vs. personal decisions showed—the former works well, 23%; helps some, 44%; works poorly, 27%. Generally speaking, most presidents felt that group decisions in the above fields were excellent for training and broadening and were necessary for studies and recommendations but not for final decision.

Picking good executives is important, interesting, time-consuming and more often than enough, badly done. As prospective executives, have you thought of these points?

Ability—still paramount in selection, you need intellectual resources beyond your present job. Reports must be concise, accurate, well-organized. You are good at developing subordinates and picking the brains of specialists.

Integrity—independent thinking and high standards of accomplishment are of first importance; toleration, but not necessarily agreement with other races and creeds.

Industry—there is no substitute for hard work, which includes keeping up with what is happening in the field. Your library will contain the latest journals in your own specialty. Work is in terms of unsolved problems and unfinished tasks, rather than time.

As far as placement is concerned, you will probably pick your own industry initially for its opportunity for training and usage of your particular skills rather than immediate salary and benefit returns. You will accept the price of progress which is long hours of unremitting self-development through experience, reading, study and observation.

AN APPROACH TO MUNICIPAL COST ACCOUNTING AND PERFORMANCE BUDGETING*

By E. Gordon Hamlyn,
Executive Assistant to Director of Planning and Works,
Corporation of the City of Ottawa.

In general, municipal governing bodies have not kept pace with the rapid development of performance budgeting. In the interests of efficiency and economy, this article makes a plea for more responsible control by municipalities in terms of works undertaken rather than in dollars expended.

"*A generation ago municipal government was considered commendable if it was honest. Today we demand a great deal more of our public service. It must not only be honest but efficient as well.*"[1]

Governments are now becoming more costs-control conscious, but it should also be remembered that governmental bodies pioneered in the use of financial budgets many years before private enterprise. Modern business today is so far ahead in its budgetary practices that some of the very officials who fathered this administrative tool now state that such a system cannot succeed within publicly administered corporations. This attitude may not always stem from the exercise of considered judgment. Elements of fear among municipal administrators cannot be overlooked. Suffice it to say that even the most secure civic official is well attuned to political necessity.

Of course, there is a difference between private enterprise and governments; efficiency and good management in industry are reflected in the profit and loss statement, whereas inefficiency and poor management in a municipal corporation may be glossed over by an additional few mills on the tax rate.

* A condensation of a thesis submitted for R.I.A. qualification.

1. Ridley, C. E. and Simon, H. A. MEASURING MUNICIPAL ACTIVITIES. Chicago: The International City Managers' Association, 1938.

A Registered Member of the Society of Industrial and Cost Accountants of Ontario, MR. HAMLYN has been executive assistant to the director of Planning and Works, Corporation of the City of Ottawa, for the past four years. Formerly treasurer and office manager of Clark Dairy Limited, his business background includes 17 years of managerial experience in the dairy and manufacturing industries.

"Thus, you have the one, industry trying to do the least and get in the most, the maximum revenue, the other, the municipality trying to do the most and get in the least, the minimum revenue."[2]

In budgeting, the effort made to focus responsibility for program and costs may have political declensions. Where work programs and unit costs become part of the public budget, a pin-pointing plan might disclose that the duties of seemingly busy civic employees are not essential. As vacancies in the establishment occur, therefore, some posts could be eliminated and the duties absorbed by other members of the staff. A busy worker is usually a happy one, hence it is not only inefficient to be overstaffed but it undermines good industrial relations as well.

I think that John H. Donaho has put his finger on one of the great causes for the inertia in municipalities.

"Resistance to change is a universal human failing . . . comfort in the old and familiar ways is mentally correlated with job security."[3]

The initiating of any plan which is different from the "good old days" will meet with objections, but my point is, such objections are based more on whims and notions than upon real facts.

PROGRESS IN CANADA AND U.S.A.

Since the *Hoover Commission Task Force Report*, considerable progress has been made in performance budgeting in U.S. municipalities. A large number of American cities today are being encouraged to operate a performance budget program analysis. I think it is safe to say that very little of this has been done in Canadian cities. There are, however, a number of Canadian municipal officials urging better works accounting, so that, within the next few years, great strides will likely be made in this country.

Some municipalities prepare a budget with emphasis on the dollar sign only, without any reference to the performance aspect. Each year the estimates are "upped" a little, hoping that these will accommodate the price increase in materials and labour, with maybe a little extra for an increased standard of services. This method of preparing a budget is often necessary because, while volumes of performance data are recorded, such information often lies neatly in a day book or diary, and is therefore not in usable report form. Seldom, if ever, is a monthly summary correlated with the postings of the financial department. Records are of no value unless they are summarized, assimilated by management, and used as a guide for better administrative policy.

Because our city suffers from this lack of co-ordination between the performance records and the ledger postings, this study will be limited to the preliminaries of setting up a municipal works cost accounting system.

I will therefore attempt only:

- To illustrate how the nucleus of a reporting staff can be organized and developed.
- To indicate the second step, that of assembling this information into a performance and cost report.

2. Lowe, F. A. HOW TO INITIATE A PERFORMANCE BUDGET PROGRAM. Accounting Publication series 11-2 Chicago: Municipal Finance Offices Association, 1954.

3. Donaho, J. H., THE PERFORMANCE BUDGET Municipal Finance (February 1950).

- To point out the necessity of preparing performance and unit costs reports so that they can be put to practical use as tools for management at the various levels of authority.
- To make mention of, but not to explore, what should constitute step two of this proposed accounting program.

By limiting the scope of the cost accounting system for the present, the field reporting staff as well as the general office clerks gain time to become familiar with reporting techniques. As each one becomes acquainted with the system, so also will he become more efficient. Increased efficiency will enable the present establishment to handle an increased work load, thus putting into practice, at the clerical level, the economy measures we are advocating.

DIFFICULTIES TO BE ENCOUNTERED IN AN APPROACH TO THE PROBLEM

Authority is a "must". It is a fatal mistake to underrate or neglect the need for obtaining the authority to carry out a program. It is frustrating to be confronted by passive resistance, or even a bold faced refusal to co-operate, because you lack the delegated authority. Whether the plan be initiated by operating or finance department, little can be accomplished without the co-operation of the officials or departments affected, and *authority is required* to *force* such co-operation if necessary. Authority may also be required to cut through the conglomeration of municipal regulations and by-laws which might prove inconsistent with the proposed scheme.

Available books, periodicals or manuals outlining the preliminary steps toward municipal works costs accounting are very limited. One must turn for guidance to actual departmental case histories, and the practical knowledge gained in other fields of endeavour.

One of the first difficulties is the question of where the costs records are to be maintained. This, the size of municipality, or policy decisions of the executive administration, may decide. But municipal officials are divided on the matter. For example, if the cost accounting system is under the control of the works administrator, then he is in the position of being able to sit in judgment on his own accomplishments, whereas, on the other hand, if such a system is completely centralized it may result in delayed or stale reports. Notwithstanding under whose jurisdiction the records are maintained, they should certainly be an integral part of the general accounting system. However, cost accounting and performance budgeting should not be *controlled* by the financial department of the Corporation. Efficient cost accounting can quickly be ruined by an impractical accountant who wishes to operate with all the checks, balances, city council authorizations, etc., that are the stock-in-trade of some municipal officials. Above all the system must be flexible, so that it may conform to departmental requirements, without having first to refer all minor changes to the elected body.

Another difficult task in setting up a cost accounting system is to determine all the things to be costed; these should be considered when preparing a blueprint of the general plan. This holds even when our initial intention is to select for detailed examination and variance analysis only one or two routine items which can easily be reduced to working units.

Before a decision on functional subjects to be costed is made, a very important step is to decide upon a classification of accounts.

"Since there must be classification . . . why not a standard classification of accounts . . . There is one overriding reason why the uniformity of a standard classification has been sought—it is to attain COMPARABILITY. Comparison between municipalities is often necessary and always useful, and the odium of comparison is very much reduced when it can be made in uniform terms. Municipal officials should always be alert to what is being done in other municipalities, both in service and in economy."[4]

In Ottawa this classification is based on the manual of instructions prepared by the Dominion Bureau of Statistics; consequently the functional accounts have already been classified, and so will require very little revision to establish cost centres.

The basic elements of a functional budget will be the same for all cities, but the degree of emphasis will vary from city to city, i.e., snow and ice control in the City of Ottawa as compared with Los Angeles.

At the initial stage, all cost records and clerical work will be done by hand, so judgment must be exercised in setting up this accounting system to avoid unnecessary work for the clerical staff, when no real purpose will be served. No emphasis is given in this study to qualifications of those in charge of records, or to the need of professional guidance for the installation and operation of the system. However, as a minimum requirement, the municipal cost accountant should be familiar with all departmental activities, so that he will know when it is safe to take short cuts. He should strive only for "consistent accuracy" and not try to obtain a degree of exactness incompatible with the end result.

Obviously, any attempt to install a form of performance budgeting and unit cost accounting must be carried on within a political framework. Such a plan may meet with almost complete legislative frustration and administrative resistance. Consequently, the plan must be espoused with a strong conviction that the results will justify the effort, and one must, with the patience of Job, slowly break down resistance. If cost accounting is profitable to the private corporation then it will be equally effective and beneficial for municipal public works.

The industrial engineering method of installing a budgetary cost system requires unwavering backing on the part of the executive administration together with the necessary funds for carrying out the program. Since these ideals are only remotely attainable it might be useful to analyse what is meant by the "*Executive Approach.*"[5] The executive approach will not attain our desired objectives as quickly as the industrial engineers'. However it is flexible and a concentration of effort can be shifted quickly to a lagging phase of the program.

A CASE STUDY

When two top officials of the Ottawa Works Department retired, at the beginning of 1954, a new department was formed by amalgamating the *Engineering* and the *Planning and Development* Departments. This new department headed by a Director and known as the *Department of Planning and Works* included among its senior

4. Lowther, J. H., "STANDARD CLASSIFICATION OF ACCOUNTS," Chicago: *Municipal Finance*, 1953.

5. Lowe, F. A., *op. cit.*

officials an executive assistant whose duties, in part, were to head the setting up of a works accounting system within the department.

Prior to this reorganization the records and staffs of the Personnel and Purchasing branches of the Engineering Department were transferred to the Treasury Department. This transfer depleted the office staff, leaving two clerks and six field timekeepers, none of whom had any previous knowledge of accounting. The remaining timekeepers each declined to be transferred for training as a chief timekeeper. The only course appeared to be that of hiring junior clerks and starting an in-service training program—a plan which was to develop the latent talents of the old as well as the new employees and to promote from within. This policy of promotion from the ranks is to a great extent responsible for the continuing high morale of our reporting staff.

Desirable qualifications for these new reporting timekeepers and cost clerks were set at senior matriculation level, in addition to their indicated willingness to take an accounting course, preferably the R.I.A. curriculum.

Time reports previously found their way to the Treasury Paymaster's Office by devious means so, obviously, the starting point was to begin with the pay lists prepared by the hourly-rate labourers and then pick up those of the district foremen. A new concept of reporting was devised and the original timekeepers were absorbed one by one; now practically all the time and cost records for the department are prepared in one central field office.

Most of the labour crews report for duty at several widely scattered points; consequently the use of time clocks has not, to date, been considered practical. However, mechanical clocking could be used to advantage, at least in a few selected locations; also, bringing a few crews into line, as far as hours of work are concerned, might have far reaching effects and possibly uncover other crews not conforming with regulation hours.

From these daily time sheets the cost clerk enters the hours of work and rates of pay for labour and equipment on the fortnightly individual pay sheets; concurrently this information is recorded on the appropriate work order. (When accounting machines are available this same information may be fed to the mechanical equipment.)

Other information available for inclusion in the very modest system of job orders includes, stores issue slips of materials and supplies, or invoices and delivery slips of non-stores items which are delivered direct to the job sites.

The direct charge aspect of the work order is not complicated, and, for the sake of expediency, a fixed percentage for overhead is charged to all accounts receivable and local improvement work orders. A more accurate method of overhead distribution involves determining overhead costs for each cost centre. A summary of the total direct and overhead costs of the work order, co-ordinated with the total units of work accomplished, makes it a relatively simple matter to determine the cost per unit, the units per man hour of labour, or the units per hour of equipment used.

Our department maintains an operating cost record for each piece of departmental equipment. Hours of work for each vehicle are now being reported, and this is to be followed by the reporting of performance data. If depreciation allowance data were available as a supplement to the record of direct charges for operating costs, a more realistic comparison could be made between the cost of operating city-owned equipment and the cost of hiring similar vehicles.

This, then, represents a very abbreviated description of accomplishments to date in the development of our preliminary approach towards a performance budgeting and unit cost accounting system. This plan was conceived at the beginning of 1954, but it was not until 1955 that authorization was received to hire the first cost clerk. In point of fact, the reporting staff, at this date, has been operating for only a few months. It is planned that at least a part of our next budget will be prepared on a program unit basis. From then on the values of performance budgeting and unit cost accounting should be increasingly evident.

PLANS FOR THE FUTURE

Barring instructions to the contrary, our intention is to proceed with the executive approach toward the installation of this cost accounting and performance budgeting program. Our plans must be kept flexible, however, so that cost details may be produced for any job which is not included on the initial cost accounting schedule.

In developing standard units of measurement, the functions which can be easily reduced to working units will be chosen first. By a unit of measurement I do not mean the mill rate—for municipalities, this is one of the oldest units of measurement, and one, unfortunately which is still with us. The mill rate is a measure of *dollars* and should not be substituted as a measure of *works* to be undertaken.

At this stage units of measurement will be confined to the physical works program, the clerical functions will not be undertaken until some time in the future. Before arriving at a unit of measurement, each function must be analysed, for example:

Street Cleaning: This job is repetitious and exclusive of appearance it adds nothing to the value of the street. The obvious purpose is to keep the street reasonably free of objectionable debris. To determine a unit for street cleaning two factors must be considered: (1) The weight and volume of material removed by the street cleaning treatment. (2) The frequency of the cleaning service.

Garbage Collection: The costs of the collection of garbage are often compared with other municipalities. In determining a unit for such a comparison we must take into consideration: (1) The frequency of collections and the completeness of the service. (2) Location of the pick up, for example the collection may be made from the house, the yard, the alley or the curb. (3) The nature of the terrain, the hilliness or condition of the surface, whether it be mud or stone.

Snow and Ice Control: The principal objectives in the control of snow and ice are to expedite the movement of traffic and to ensure the safety of pedestrians. This job is never routine but invariably of an emergency nature. As each storm varies in depth and density, there is no firm standard of measurement. The costs for each storm should be computed separately, together with the number of inches and the type of snow.

Here are some suggestions as to the terms of measurement for municipal activities:

Street cleaning	• curb mile.
Garbage collection and disposal	• cubic yard or ton.
Snow and ice control	
• Plowing of streets and sidewalks	• snow plow mile.
• Removal by snow blower	• curb mile.
• Removal by truck haulage	• ton and/or haulage ton mile.

- Application of sand, cinders or chemicals • miles sanded or tons of chemicals applied.

For efficient accounting it will also be necessary to make certain changes in accounting procedures—one of the foremost being the department's method of maintaining "branch owned" equipment cost records. In a large number of municipalities, including Ottawa, the equipment is "owned" by the various branches throughout the corporation. The charges for maintenance, gas, oil, etc., are made against a particular cost centre, but it does not take into account any charge for capital replacement. There is no fair accounting for services rendered to the various jobs.

One answer to this problem would be the establishment of a "revolving" or a working capital fund, with the "ownership" of all equipment and vehicles vested in a central control unit. When establishing rental rates for such vehicles and equipment all elements of cost should be considered, i.e., operating maintenance, overhead, and depreciation.

The laws governing municipal affairs have not in the past permitted a reserve for depreciation account; the results of this legislation are partially responsible for an unrealistic system of accounting in municipalities insofar as capital assets are concerned. This technicality may now be overcome by taking advantage of the recent change in the Provincial regulations covering funds for the replacement of capital assets.

The first step toward setting up such a central equipment rental service would be to take an inventory of all equipment, cataloguing by type, make, age and general condition. The operating departments should then be asked to prepare a list of equipment requirements, by type, and number of pieces of every type, which they need to carry on their operations. From this list of requirements the mechanical superintendent could make assignments of the better equipment to the first line jobs within the various branches, and without regard to previous ownership.

One important aspect of equipment control is the reduction to a bare minimum of the vehicles stored at employees' homes. Each department should be required to submit individual requests for each piece of equipment which, in their judgment, should be assigned on a twenty-four hour basis. Such requests should be approved by the Board of Control, and each case reviewed every six months.

Adequate accounting records must be set up to provide the mechanical superintendent with one of the important tools for the proper supervision and management of motor equipment. Separate accounts should be kept for each unit, for both operational expenses and rental income. These records would be useful as an indication to the superintendent of when it is economical to make a replacement. They would also yield some basis for determining when a vehicle is being abused by the operator.

The establishment of a "revolving" working capital fund is beyond the policy decision range of a department head, consequently any scheme of this nature would have to be authorized by the Board of Control and the City Council.

COST CONTROL THROUGH COST ACCOUNTING

Notwithstanding the fact that a year's budget, which obviously must be within the limits of funds approved by City Council, is formulated on a work program, variations between policy and practice of a work program are inevitable and should be

anticipated. Not only should we account for the costs of such changes, but we should also take into consideration their effect upon the cost and volume of the other planned programs.

In controlling a performance budget, the operating head should not fix his attention solely upon its dollar sign. Control could be centred around the budgeted work program by inspiring people to keep to the outlined schedule of works and put forward a sincere effort to keep within the standard costs per unit by conscientious use of labour, materials and equipment. If the work program is adhered to and the variance analyses are favorable, then the dollar budget will automatically conform to plan.

An analysis of the actual costs per unit will disclose discrepancies in the preliminary standards. After the second year of operation, by the use of better reporting procedures, and possibly by the introduction of time and motion studies, it will be necessary to adjust some of the standards to make them more realistic. After this first adjustment, these standards should remain fixed. The full use of variance analysis in the future will act as a barometer of departmental efficiency, and disclose price variations for materials and labour.

If cost reports are circulated to all the supervisors concerned such reports will stimulate helpful rivalry as well as pride in the work of civic government. With this in mind Walter O. Harris in his *Public Works Accounting Manual*, states:

"*Any value to be derived from the maintenance of a cost accounting system comes from the use, by those persons for whom they have significance, of the data produced. Obviously, it is a complete waste of time and money to record cost and performance data unless the information recorded is made available to, and understood and used by, the responsible officials. This is done principally through the preparation and issuance of adequate cost statements and reports.*"[6]

Or, to put the matter in another way: to promote efficiency and economy a municipality must develop *responsibility accounting*. A good cost report with variance analysis will pin-point responsibility. However, these reports will have no effect until they are acknowledged and used by top management and passed for distribution to the lower levels of authority. The entire first line supervising group will then be brought solidly behind a dynamic cost reduction and control program.

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The Economic SCENE . . .

by W. Allan Beckett

CURRENT TRENDS IN THE CANADIAN MONEY MARKET

The arrival of easier money is being reflected in the Canadian money and capital markets.

Bond prices, for example, are clearly on an upward trend. This is illustrated in the table which traces the movement since July of four Government of Canada issues. The increase from August to December has been of the order of 8 to 10%, a sharp movement for bond prices.

Prices of Government Bonds since July 1957

	Short to Medium-Term		*Long-Term*	
	3%	2¾%	3¾%	3¼%
	1961-66	*1967-68*	*1975-79*	*1979*
August 28	86½	82¾	93	84½
September 25	88⅝	84	93	85
October 23	90⅜	86¼	93¾	87½
November 27	94¼	91½	97	91½
December 24	94⅜	92⅛	97	92

Sources: Bank of Canada Statistical Summary, Nov./57; A. E. Ames & Company, Daily Bond Quotations.

This recent trend should be viewed in the light of bond prices over the past five years or so. They reached a peak, in some cases well above par, in the spring of 1955, reflecting the effect of the Bank of Canada's then easy money policy and conditions produced by the recession of 1954. For example the 1975-78 issue reached a high point of 108 in the spring of 1955 after many months well above par. Government bonds began to weaken in the summer of 1955 as the economy picked up steam and reached 5-year lows in August of this year with our representative issue selling below 93. Recovery since then has been marked.

The dramatic nature of this reversal in the bond market is best illustrated by the way yields have fallen in recent months. The following table lists the yields of our four Canada's.

	Short & medium term Canada's		*Long-term Canada's*	
	3% 1961-66	*2¾% 1967-68*	*3¾% 1975-78*	*3¼% 1979*
August high point	4.88%	4.81%	4.29%	4.35%
August Average	4.82	4.78	4.28	4.32
December Average	3.77	3.68	3.90	3.81
December low point	3.76	3.66	3.90	3.79

Sources: Bank of Canada Statistical Summary, Nov./57; A. E. Ames & Co. Daily Bond Quotations.

Comparison of high and low points indicates the sharp drop in yields during this relatively short period.

Other interest rates in the bond market are showing similar declines, not yet as drastic. Provincial and industrial bond yields reached their 5-year peaks in September of this year, with municipal and public utility long-term bonds at their high points yield-wise a month later.

Short-term interest rates are also falling but their downward course is less precipitate and perhaps a trifle more erratic. The latter is to be expected in a market so keenly sensitive to day-to-day uncertainties in the present economic climate. Typical money market rates are as follows:

	3-month Treasury Bills (Weighted average of Tender Rates)	*Day-to-day loans (Wkly av. of Daily closing rates)*
	%	%
August 1957 high point	4.08	4.08
August average	4.02	3.88
December 1957 average	3.65	3.60
December low point	3.62	3.25

Sources: Bank of Canada Statistical Summary, Nov. /57 weekly supplements.

Several factors are behind the slackening demand for loanable funds.

Business inventories have fallen in recent months in contrast to the build-up evident in the same period in both 1956 and 1955. As a result companies need to borrow or retain fewer funds to finance inventory.

There are signs that productive capacity has temporarily caught up with expansion in the final use of goods. Various indicators, such as industrial production, are all down in a way which cannot be explained by seasonal factors. Some business men undoubtedly feel, in view of prevailing unemployment and other sensitive indicators, that plans for new plants and equipment might well be delayed. New corporate issues in 1957, while greater in amount to date than for the same period in 1956, are not coming up to the level expected by the market.

Still, Ottawa sources indicate that the tremendous capital expenditures program of this year, an all-time record, will be as large as originally forecast, i.e. $8.8 billion. This is despite the fact that outlays in the first half of the year were well below the rate needed to reach this total. It would appear that financing plans for this large program were completed earlier in the year during the "tight money" period prior to August. Since then, part of the decline in interest rates can be found in the supply side of the market. The supply of funds for lending is catching up with the demands of borrowers.

For one thing, while personal savings of Canadians are not growing at the 1956 rate, they are being maintained at a very high level. The exact amount of total savings which find their way into investments is difficult to gauge. Savings deposits in the chartered banks appeared to be increasing in 1957 although a recent change in the manner in which they are classified for statistical purposes makes month-to-month comparisons difficult. Insurance companies and pension funds, the other two significant means of saving by individuals, are not particularly active in the bond market at present but their steady inflow of income from premiums and investments has not abated and must be counted sooner or later as loanable funds.

The foreign trade situation is proving to be, at least temporarily, of assistance in providing funds for the financial markets. On current account, merchandise imports in recent months have shown more than a usual seasonal decline, while exports remain at a high level. Funds for potential short-term investment have been created thereby.

The abrupt fall in stock market prices has undoubtedly caused some investors to switch from equities to bonds. The movement seems hardly widespread as yet but must be noted as another source of funds for term borrowing. However, since the fall in stock prices resulted from investors making a more calm appraisal of prices in relation to prospective earnings, then further decline in the stock market seems possible with favorable repercussions on the bond market.

Finally, the Bank of Canada has abandoned a policy of restraint for one nearer neutrality. Nor is the new policy simply one as stated to prepare the market for the recent new and refunding issues. The Central bank seems to be permitting interest rates to fall to levels more appropriate to the new level of general economic activity and the demand for borrowed money in particular. The chartered banks, as a result both of this action and of the traditional desire for liquidity at the end of their fiscal years, are undoubtedly in a better position to accommodate borrowers than was the case only a few months ago. This is evidenced both by the fall in the day-to-day loan rate and by the recently announced drop in the prime commercial rate of interest on bank loans from 5¾% to 5½%, effective December 2nd. The latter reflects a reduced demand for bank loans.

The Financial Markets in the Months Ahead

The course of interest rates, both short and long, in the month immediately ahead is likely to be downward, although not sharply so.

A vital factor to consider is the effect of current economic conditions on business confidence and expectations. The prospects for employment this winter are far from good, with many observers feeling that the usual March peak of persons without jobs will reach 10%, a level which cannot be explained away as seasonal. This employment situation, with all it entails, is undoubtedly leading many business men to exercise caution with respect to their plans for borrowing in 1958. The decline in corporate profits and the likelihood that price pressure will continue to ease will have a pessimistic influence on executives. Certainly the psychological attitude of business is highly important at this juncture.

But evidence exists that Canadian business men intend to continue capital outlays at a level which will still place very considerable demands on the money and capital markets. Outlays by business will be down a few per cent in 1958 but government capital expenditures and an increase in housing may offset this drop. Such a forecast can of course easily turn out on the high side if business confidence becomes overly impaired.

For the financial markets, much depends on the attitude of the Bank of Canada. If the monetary authorities conclude that the sharp drop in yields since August has been too severe on investors then we may expect a delicate but nonetheless potent "leaning against the wind". On the other hand, the Diefenbaker Government, if faced with substantial unemployment, will undoubtedly want easy money and low interest rates to try to overcome the dictum that "Tory Times are Hard Times".

SALARY ADMINISTRATION*

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High salaries are not always of paramount importance to the employee. A sound and equitable salary administration program will do much to allay common personnel grievances and is often the deciding factor in gaining and keeping employee loyalty. This article outlines the steps to successful salary planning in three phases, evaluation, remuneration and administration.

During the past few years the problems of salary administration have received a great deal of attention from management. As a result of Canada's economic expansion, it has become increasingly difficult to recruit qualified personnel and, above all, to retain those already on the payroll. The ever-increasing number of books, articles, conferences and seminars dealing with salary administration underlines the acuteness of the problem.

There is also a strong desire on the part of employees to see their employers establish a sound salary administration program, based on fair and equitable principles. From that moment on, the employee knows that his salary is not affected by favoritism, nor does it depend on the frequency of his requests for an increase. The timid soul knows that if he deserves an increase it will be given to him . . . no need for him to rehearse for the dreaded moment when he will face the boss and ask for an increase. There is also the employee whose morale is undermined by the thought that the man next to him in the office is getting more money for work which (he thinks) has a lesser value. At last, with a sound wage administration program, he will regain the peace of mind so necessary to clear thinking and top performance.

Management must take a genuine interest in planned wage administration because their personnel constitute an asset just as important, often more so, than equipment or materials. Because personnel are paid in weekly or monthly instalments, the total cost is not so evident. When an average yearly salary of $7,500 is compared to the $30,000 paid for a machine, one realizes, allowing for the useful life expectancy of the machinery, that the salary paid to the employee is an expenditure of greater magnitude. Just as with machinery, personnel require proper maintenance. It is not

* An address delivered at the meeting of the Quebec Chapter on October 14, 1957.

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sufficient to hire employees, train them and after a while forget them. Under such conditions very little time would elapse before serious discontent would result, spreading throughout the organization and impairing its performance just as surely as a lack of lubrication hinders the smooth running of any machine.

Unlike machinery, personnel should improve with time, but they require a lot of attention. Fully qualified and enthusiastic personnel are the result of many years of unrelenting effort, during which time the relations between management and employees must exist in a climate of sincerity, frankness, justice and mutual confidence. No technique by itself could bring about this desirable state, nor ensure its permanence. A slight injustice, a tactless remark, a mere oversight, can shatter in a relatively short time what has been built over the years. For example, if management allows or tolerates food of inferior quality to be served in the company cafeteria, even if the prices are reasonable, the resulting discontent could easily snowball into strained relations between management and personnel.

There is no single magic formula for achieving the desired results, but experience has shown that sound salary administration is the keystone of any successful personnel relations program. One interesting feature of sound salary policy is that it does not necessarily imply higher salaries. The employees' opinion of the system is more important than the salary level. The employees must acquire faith in the salary administration program. This is achieved by getting the employees to realize that the salary structure is equitable, logical and free of personal bias. Then, the employee is told how his job compares in relation to the others and, finally, how his own performance is measured against the job requirements.

A formal plan for salary administration is generally associated with larger organizations. In a general manner, there is no doubt that even small firms would benefit if the principles of good salary administration are applied.

PRINCIPLES OF SALARY ADMINISTRATION

There are four fundamental principles:

Firstly—The adoption of a sound and equitable salary level. The enterprise must pay salaries in line with those paid currently in the community for work of a similar nature or work requiring the same skill, the same knowledge and offering the same working conditions.

Secondly—The establishment of a salary structure based on the degree of skill, experience, responsibility and mental and physical effort required by the job. In other words, the different positions must be classified according to the proper evaluation of their elements so that a true relationship exists between the worth of the job and its remuneration. When a differential exists between the worth of two jobs, this differential must be reflected in a salary differential.

Thirdly—The establishment of a merit rating plan. The individual performance is gauged against the job requirement.

Fourthly—The establishment and maintenance of a salary administration program. This plan must be well conceived, well received and must be kept up to date, otherwise the plan will become a burden to management.

The establishment of a full salary administration program could be carried out in the following sequence:

1. The evaluation phase. 2. The remuneration phase. 3. The administration of the plan.

EVALUATION

The first thing that comes to mind is the selection of an evaluation plan. This plan should be simple and easily understood by those whose positions will be evaluated. Preferably this evaluation plan should be distinct and separate from the remuneration plan itself; in other words, the relative value of the different jobs must be determined without introducing dollar values. A point value is assigned to the jobs. Such values do not vary with the economic fluctuations and for that reason they are a better and more accurate measure of the relative worth of the various positions.

Numerous plans are available to determine the value of the jobs to be evaluated. The plan used in connection with this paper is a modified version of the National Electrical Manufacturers' Association Salary Evaluation Plan[1]. It is one of the best known and most widely used plans. If some day you have to select a plan for the purpose of job evaluation, ascertain that the one chosen has a sufficient number of factors (between 8 and 15). Some plans contain up to 40 factors; they tend to be awkward in use because too many factors overlap. In the final analysis, the results are no more accurate than if a smaller number of factors had been used. Furthermore, the selected plan should have been used with success before. The point values assigned to each factor must have been determined through years of experience. They cannot be changed without the risk of weakening the results.

The success of a salary administration program is, as a rule, directly influenced by the position and drive of the person sponsoring the program in the organization. Such a program will have a much better chance of success if the sponsor is a top management executive. This person appoints two senior employees to constitute the permanent section of the Evaluation Committee—usually a senior employee from the personnel department, together with a specialist in job evaluation and salary administration. The non-permanent members of the Committee are those who will make the evaluation. A minimum of three persons who know the job quite well is the usual requirement. This non-permanent section of the Committee changes as the evaluation work progresses through the various sections or departments. One excellent way to save time and money is to have the employee write up and submit his own detailed job description. His immediate superior may help him should he require assistance. There is a psychological benefit in having the employee write his own job description. It gives him an excellent opportunity to bring to light certain features of his own duties that he feels his superiors tend to overlook or minimize.

To begin a job evaluation session, the job description is read aloud. The Committee discusses and approves the title, which must be as descriptive as possible. Next, and if need be, changes are made to underline or clarify certain aspects of the job. Then the description is finally approved. Each member of the Evaluating Committee is provided with a job evaluation manual. The procedure followed resembles somewhat the establishment of the cost of an article. To arrive at the cost, it is broken down into its components. To evaluate the job, it is broken down into nine components or factors. They are:

[1] The NEMA Salary Job Rating Plan and Manual of Procedure are available from the National Electrical Manufacturers Association, 155 East 44th St., New York 17, N.Y.

Complexity and Judgment.	Initiative.	Physical Demand.
Education.	Liability (errors).	Working Conditions.
Experience.	Contacts.	Supervision.

Each factor in a job evaluation manual is written up on a separate page. The factor is concisely described and under this definition can be found a group of short paragraphs labelled 1, 2, 3, 4, . . . The text will disclose that they are in order of increasing value. Even when the text has been designed very carefully, the job evaluation specialist must elaborate and give an exact meaning to the terms utilized. Later, the specialist's function will be to watch over this original interpretation to ensure that it remains constant. It is relatively easy for the evaluators to pick out the degree (for the factor considered) which best suits the job. The chairman asks each voting member what degree applies. If all voting members are in agreement, the degree is recorded on the back of the evaluation form and they proceed to the next factor. If there is lack of agreement, the point is discussed until agreement is reached. Sometimes it requires a lot of tact and patience on the part of the chairman. For instance, it would not be proper for him to say: "You are all in agreement except Mr. Martin". It would be better for the chairman to say: "Mr. Martin, would you consider going along with the majority?" Always provide an easy way out for dissenting members. The same procedure is repeated for each of the nine factors. Each degree has a point value that may vary with each factor. For instance, any degree for Complexity and Judgment is worth more than the equivalent degree for Working Conditions. When the evaluation is completed, all the degrees assigned are converted into points. The points are totalled up to express the relative value of the job. Now imagine a long flight of stairs, and at the bottom is placed the job with the lowest number of points and at the very top the job with the highest number of points. All the other positions would be placed along the intermediary steps according to their relative worth.

In an undertaking of such magnitude, it is possible that some errors have crept in. Rigorous checks are made to discover such errors and to correct them.

REMUNERATION

We are now entering the second phase of salary administration. It consists of determining the actual salary level of the company. To obtain this information a graphic method is employed.

A point is plotted on the chart at the intersection of the point value of the job (horizontal plane) and the salary paid for the job (vertical plane). When the salaries of all incumbents have been plotted, we have a scatter diagram for which a "line of best fit" is worked out. This line represents the salary level of the company. From such a line we could develop a salary structure; however, recalling the first principle which states that the enterprise should pay salaries in line with the salaries paid in the community, the company is committed to a community survey. The two permanent members of the Evaluation Committee arrange to visit a number of firms representative of the community. In these visits, the company representatives obtain detailed descriptions of a good number of positions ranging from junior clerks to middle management positions (normally 15 to 25 positions for each company are sufficient). These positions are evaluated with the assistance of their hosts. The actual

salaries paid to the incumbents are also obtained. At the same time information is collected as to working hours, working conditions, rest periods, holidays, vacations, overtime, pension plans, insurance plans, etc. It is relatively simple for the two survey men to work out the salary level for each company, and the community composite salary level also. The procedure described earlier is followed.

After examining the facts, management must decide where they want and where they can afford to be, in respect to the community. Usually this level is represented by either a straight line or a slightly curved line (parabola). Such a line is the basis for determining salary groups and salary ranges. The positions are grouped into intervals of 20 to 30 points. Then, the minimum and maximum salaries for each salary group are computed from the standard salary for the group. The standard salary is the dollar value which is determined by the point at the juncture of the proposed line and the middle of the salary group. As a general rule the range from minimum to maximum is of the order of 20 to 35 per cent of the standard salary. The salary structure is now represented by a number of salary groups (usually from 10 to 20 groups, depending on how far up the organization position evaluation is applied). For each of these groups there is a minimum salary paid to the incumbent holding the job with a minimum of skill and experience. The standard salary is designed to remunerate normal satisfactory performance. The margin between standard and maximum is utilized to reward employees whose performance is above average. This margin is also used to remunerate length of service and individual merit.

It then becomes necessary to provide for the rating of the incumbent's merit in order to set his remuneration. Merit rating is a systematic appraisal, done at regular intervals, to evaluate in an atmosphere free from personal bias, the performance, attitude, progress and potentialities of the employee. In most cases this rating is done once a year, generally preceding salary revision. Merit rating must be done openly; employees should know who the raters are, how it is done, and the results. A commendable practice is to disclose to each employee the details of his rating. This is done by his immediate superior who discusses the rating frankly and objectively, bringing out the weak points as well as the good ones. The employee will draw encouragement from this discussion or perhaps a timely warning. Constructive criticism, pointing out the weaknesses that may stand in the way of a promotion, is usually well received.

Merit rating is too vast a subject to explore quickly. However, it should be mentioned that there are hundreds of merit rating plans. This stems from the fact that each company wants to promote some particular quality or features. A minimum of two raters is required, one of whom should be the immediate supervisor of the employee being rated. There is some belief that several raters (4, 5 or 6) will produce a better rating. However, since most of them will not be close enough to the employee in their daily work, they may have only a superficial knowledge of his attitudes, skills and performance. Thus, most of the information would be secondhand. The rating would be weakened for that reason. Merit rating is not, and should not be, regarded as an infallible measuring device. It is simply a logical method of obtaining and recording the opinions of a group of persons appraising an employee. It will never completely replace judgment.

ADMINISTRATION

Salary administration is much more than a set of plans, methods and forms. It is a mechanism set up to ensure the continuity of the program. It requires the setting up of an advisory and administrative body acting in a staff capacity to the executives responsible for the administration of salaries. This body may be either a committee or a senior employee, highly trained in this work. The main functions of this advisory body usually are:

1. To maintain the same unvarying standards used in position evaluation.
2. To evaluate new positions and revise the former evaluations when significant changes occur in the duties.
3. To undertake periodically a salary survey in the community. From the findings, to recommend if indicated, a revision of the salary structure.
4. To keep abreast of new developments in salary administration and fringe benefits and to make recommendations.
5. To ensure the proper functioning and maintenance of the merit rating plan. To analyze the results and make recommendations regarding promotions, transfers, dismissal, etc.
6. To provide for all foreseeable eventualities having a bearing on the employee's remuneration. To recommend proper action or regulations and, after approval, to publish such regulations in a manual for the benefit of supervisors and managers.

At this point, it seems proper to quote the words of a white collar worker union organizer. "There is much discontent among office personnel. The main cause is traced to the absence of a clearly defined personnel policy, firmly applied. Everything seems to be left entirely to the full discretion of the office manager. Office policies, favoritism, lack of clear-cut directives usually prevail. This is fertile ground for office employee unionization." Here are some examples of what should be regulated:

(a) What to do when an employee is transferred to a lower group position.
(b) What to do when an employee is temporarily transferred to a position of a higher or lower salary group.
(c) What is the meaning of "temporary" in the eyes of the company?
(d) In the case of an employee on probation, what salary should he get and how long should the probationary period last?

To ensure the success of the salary administration program, it is imperative that the man responsible have the necessary perspective and broad knowledge to realize its full implications. Not only should this man know, intimately, the working parts of this mechanism and be able to appreciate their relationships and their effect on the entire program, but he should know the industrial legislation, the labour agreements and the general company policies that may directly or indirectly bear on the company salary structure.

For further reading

WHAT ECONOMISTS DON'T KNOW ABOUT WAGES, by Leland Hazard, Harvard Business Review, Jan.-Feb. 1957.

WAGE AND SALARY ADMINISTRATION: MEETING THE CHALLENGE OF CHANGING CONDITIONS, by Edmond G. Bradfield, A.M.A. Personnel Series No. 157.

THE THREE ELEMENTS IN MEASURING CHANGE IN EARNINGS, by W. P. Ryan, The Controller, Nov. 1957.

Profit Pointers . . .

TWO BILLING METHODS ARE BETTER THAN ONE

As organizations grow bigger, it becomes more and more necessary to adhere to strict routines in the carrying out of clerical functions. That does not mean that flexibility should be eliminated particularly where the function is such that one method is better or more efficient than another under certain circumstances. Take the billing or invoicing function. Some companies use a reproducing method like spirit masters, others type their invoices using a "snap-out" pack. Both methods have drawbacks. Where back orders are involved, the typing method is not very efficient, since a second pack or even a third or fourth must be typed. If the copying method had been used, it would have been necessary only to pull the copy from the files and run off as many copies as necessary for the back order. When the copying method is used exclusively, however, in many cases the job could be finished at the completion of typing if no back order was involved and the "snap-out" pack method employed. Why not employ two methods in your business and use the one which suits the circumstances best? Efficiency will rise.

REDUCE THAT BILLING STAFF!

Our salesmen were required to write out a customer's order. At head office we re-copied the information to an invoice when it came time to bill. Why not eliminate one step in the process? We did. We gave each salesman a portable typewriter and a pack of snap-out invoice forms. When these are received at head office, we price and distribute them. Savings? Two-thirds to three-quarters of our billing staff.

SPACE SAVING

In most printing establishments, banded skids of raw paper stock are stored at least two, and sometimes three skids high. Partly used skids are plentiful, however, and are usually found "unstacked", each skid perhaps two-thirds used and occupying as much space as two full skids.

This condition had been accepted in our plant until recently when one of the newer members of the staff suggested building "shelves" four tiers high out of 2 x 8's and stacking these partly used skids with the fork-lift truck.

The suggestion had such obvious merit that the general manager immediately had an area next to an aisleway set aside for this out-size set of shelves.

ENVELOPES AD INFINITUM!

If yours is a very small organization with a regular mailing list problem, you will know the bottleneck created when your staff tackles the job of addressing envelopes. You wish you could afford an addressing machine but this is too big for your operation. Invest a few dollars in a manual envelope addressing device available at most office stationers and you'll cut your typing time by two-thirds.

ABSENTEEISM

In the past, our company has been rather generous in the matter of payment of salaries to personnel away from the office through illness. However, as there are always employees who take advantage of such leniency, two years ago we adopted a system which permits salary payments up to 1½ days per month for persons absent for any cause.

A payroll notation is made each week showing the number of days present, for example: 5, 4½, 3, etc. The allowance is cumulative, and a person whose attendance is perfect for say 10 months, would be entitled to continuation of salary during an illness of 15 working days.

Our absenteeism has dropped considerably, and we feel that persons afflicted with that "Monday morning feeling" are now inclined to struggle into the office rather than risk having their pay docked.

ANOTHER APPLICATION OF PHOTO COPYING

The cost of retyping a hand-written memo, statement or report is high. Where speed is a factor, and a small number of copies is required, we have found that the non-chemical copying machine is the answer. This machine, operating on a thermal principle, makes clean, legible copies of anything containing a carbon content in four seconds each for a letter size sheet.

RECORDING OF EXPENSE ITEMS

Time was when we recorded all company expense expenditures from vendors' invoices to ledgers. Today we sort the duplicate copy of the invoice by expense account number, add these, and attach an adding machine tape. To the ledger we post one figure in each applicable expense account and enter the description, "Outside Purchases". The invoices are filed by months in ordinary file folders and, when reference to them is necessary, the complete story of the purchase is available. The elimination of writing the descriptive detail saved considerable clerical time as will be appreciated, and the new method provided more information quickly accessible.

OVERTIME AUTHORIZATION

The authority to work overtime is handled loosely in many cases—at least this was our experience.

Recently we adopted an overtime authorization system which operates simply but effectively. Each foreman has a pad of authorization forms with spaces for name, job identification and approximate time. About 4.00 o'clock each evening (Friday's list must cover any week-end work), every foreman who requires overtime must submit his list to the production manager. This official scans the list, and in many cases he will say, for example, "Why work overtime on so-and-so job—there's no rush for it. Johnny's cutter has a few spare hours next Tuesday—let's drop it in there."

Authorization slips are handed to the payroll department which pays for only sanctioned overtime.

SAVING TIME IN THE RECEIVING DEPT.

Our receiving department clerk formerly wrote receipts on individual pre-numbered receiving slip packs. These were torn apart and distributed to the correct departments. The requisite number of "Purchase order-receiving slip" copies are now included in our "Purchase Order" pack and are typed at the time the order is issued. The applicable section of the pack is sent directly to the receiving department. Since at least 75% of our orders are received in one shipment, three-quarters of the receiving clerk's time, formerly spent on recording receipts, is now saved.

A SHORTCUT IN INVENTORY RECORDS

As our operations grew, the recording of "ins" and "outs" for both quantity and price in our inventory records and the physical counting of articles for inventory check, became a clerical problem. On investigation, it was found that 20% of the number of items in inventory constituted 5% of the inventory value and all these items had a value of five cents each or less. We decided to eliminate "in" and "out" postings and physical counting of these items and set up an inventory value intended to represent a normal inventory of these items. A one year trial has shown the wisdom of this course. The clerical inventory function has been eased, and the inventory adjustment has been negligible.

THE RECORDING OF PRODUCTIVE AND NON-PRODUCTIVE WAGES

In common with many companies, we have tried for many years to incorporate in our payroll a daily record of productive hours and wages, and non-productive hours and wages for each man. This proved to be cumbersome, and several years ago, in order to speed up payroll work, we removed the categorizing of the time as productive or otherwise from the payroll. Time sheets were processed by a separate clerk to obtain this information.

Eventually we simplified this to the following procedure which gives us essentially the same information, but with much less clerical labour:

1. Each department was assigned a group of clock numbers and, upon employment, each new employee is given a number depending upon the department in which he works. Then the payroll is written up departmentally.
2. We have worked out a labour cost factor for each cost centre which we review several times each year.
3. We maintain a daily chart of productive hours worked by each cost centre.
4. The production manager obtains a weekly report of hours worked on each machine.
5. A monthly report is prepared showing the month's total hours worked productively in each cost centre. Multiplying the total hours worked by the labour cost factor determined in No. 2 above, we have the productive wages by cost centre. Night shift premiums and week-end premiums are easily taken care of.
6. The payroll, which is summarized departmentally, gives us the total monthly wage bill of the departments from which is subtracted the productive element determined in No. 5 and we have then the non-productive wages by departments.

THE MARGINAL INCOME CONCEPT IN COST ACCOUNTING*

By Alphonse Riverin,
Professor of Accounting Theory, Finance and Control, Faculty of Commerce, Laval University, Quebec.

Should direct costing be relegated to the ranks of controversial subjects? Or should it be accepted as a costing method equally valid with absorption costing? This article weighs the merits and demerits of direct costing as compared with the more conventional method of cost accounting.

Business growth has created complex administrative problems. To face them administrators need more and more information, in a form they can easily understand. Management's essential task is to make decisions in every phase of business. Enterprises must be so managed as to furnish people with all that our modern standard of living requires. Natural resources have to be explored and worked, durable goods have to be produced, food and shelter must be made available to people and so forth. That would not be too much of a task had not our business system become so complicated that a single management decision can mean the difference between a brilliant future or a tragic failure for the company.

Management has to choose between goods to produce. It must set up a fair price appealing to clients and meeting competition. It must plan the expansion of the firm in order to get a proper share of the trade. It must also choose the proper location for the firm. Every decision must be based on solid information provided by accounting, economics, marketing analysis, and the like.

Cost accountants have developed systems that provide management with some information, usually timely and useful but frequently little understood by administrators. For a long time, accountants thought absorption costing was the only way to convey information properly. However, for many years now, another system has been coming more frequently into use on the grounds of being more understandable by and more useful to management. This system is called direct costing, in contrast to absorption costing.

The adoption of this system for providing cost information has not been effected without creating antagonism among those who support the more traditional method.

* An address delivered to the Quebec Chapter of the Society of Industrial and Cost Accountants in December 1956.

In addition to his professorial duties, MR. RIVERIN is secretary of the accounting department of Laval University's Faculty of Commerce. As a management consultant, his experience has been principally in finance, industrial relations, and cost analysis and control. A graduate of Laval in commerce and social sciences, he was admitted to the Institute of Chartered Accountants of Quebec in 1954 and two years later received his master's degree in business administration from New York University.

Reading the great number of articles which have been written on the subject, one may say that it has become a controversial issue. This new article on the same subject is intended to set forth the pros and cons in order to clarify whether the issue should remain controversial or become a matter of pure choice between two methods equally acceptable.

WHAT IS DIRECT COSTING?

First, it must be stated that direct costing is not direct costing. That sounds very contradictory, but the procedures used in conjunction with direct costing do not convey the meaning usually attached to direct costs. In cost accounting, direct costs are the costs directly identified with the product such as direct labour and direct material. All other costs are called overhead or manufacturing expenses. The cost of the product, under absorption costing, includes direct material, direct labour and overhead.

On the contrary, under direct costing all the variable manufacturing costs (direct and indirect) are included in the cost of the product, all other costs being considered as period costs and charged off currently to profit and loss instead of to cost of sales. However, although variable selling and administrative expenses are not included in the cost of sales and consequently in inventories, they are taken into account before arriving at what is called the marginal income. The method, therefore, would be better called variable costing. The essential difference existing between absorption and direct costing is that absorption costing emphasizes the distinction between production costs and all other costs, whereas direct costing emphasizes the distinction between fixed costs and variable costs. In resumé, absorption tends to emphasize inventory valuation and direct costing is primarily interested in cost analysis.

PROFIT DIFFERENCES IN THE TWO METHODS

In exhibit I, an example has been set up showing the differences in profits arising from the use of the two methods. From this exhibit, the following inferences can be made:

1. When sales and production are the same, there is no difference in profits.
2. When production is lower than sales, profits are higher with direct costing because there is no fixed overhead coming from inventory charged to cost of sales.
3. When production is higher than sales, profits are higher under absorption costing because fixed overhead has been carried to inventory.
4. When sales are constant and production varies, the direct costing method shows a gross profit ratio more constant.
5. Variances in profits due to any one method tend to zero in the long run. Production and sales can vary over short periods, but a business can never sell more than it produces.

POSITIONS OF PROFESSIONAL BODIES

Let us make it plain that direct costing is not now accepted by a sufficient number of companies to be called a generally accepted principle of accounting.

Moreover, accounting associations have not yet given official recognition to this new convention. In Bulletin No. 43, which superseded all its previous bulletins, The American Institute of Accountants did not speak of direct costing as such, and the

bulletin is not very clear as to the position adopted. In the chapter on inventory pricing, statement No. 3 reads: ". . . cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location". But in the following paragraph, it is stated that ". . . general and administrative expenses should be included as period charges, except for the portion of such expenses that may be clearly related to production and thus constitute a part of inventory costs. Selling expenses constitute no part of inventory costs." But! "It should also be recognized that the exclusion of all overheads from inventory costs does not constitute an accepted accounting procedure." This last sentence leaves an open door to those who have adopted direct costing. If it is not proper to exclude all overheads from inventory costs, it might be proper to exclude only fixed costs.

On the other hand, the American Accounting Association adhered strictly to the cost principle in its statement on *Accounting Concepts and Standards Underlying Corporate Financial Statements*: "Adherence to the cost basis of accounting requires that there should be no suppression or unwarranted assignment to expense of the costs of existing assets."

In its Bulletin No. 5, The Canadian Institute of Chartered Accountants seems to recognize the two methods. In effect, for the Institute, the cost of finished goods in inventory includes the price for raw material, direct labour and usually the share of overhead that can be traceable to production. On the other hand, the Institute implicitly recognizes direct costing when it states that in some cases, it is proper not to include fixed overhead when its inclusion would impair the significance of the profit figure due to fluctuations in the volume of production.

From this review of the positions taken by professional associations it can be seen that no agreement has been reached, but it should be noticed that practising accountants seem almost ready to accept the direct costing method in view of its practicability and its simplicity.

ADVANTAGES OF DIRECT COSTING

Direct costing has been devised to produce useful statements more easily understood by management. It shows clearly, without requiring any additional work, the cost-volume-profit relationships. Hence by looking over the report, management sees the effects of production and sales variances on profits. As the profit figure is not influenced by the fixed costs which must be incurred whether the facilities are producing at full capacity or not, direct costing contributes to making administrators more conscious of the great importance of costs. It also makes it possible to know the influence of fixed costs on net profit before taxation.

Once all variable costs (variable manufacturing, selling and administrative costs) have been deducted from net sales, what is left is the contribution of operations to fixed costs and profits. This figure, usually called marginal income, is very useful to management. When it is expressed as a percentage of sales, it gives the marginal income ratio which allows the computation of the break-even point by dividing fixed costs by this ratio. This computation is essential in that it brings to light the sales figure above which the firm is building profit and under which it paves the way to failure.

Moreover, direct costing supplies the data needed by management in profit planning, make or buy decisions, in pricing decisions, and in decisions relating to capital expenditures, whether for replacement, cost reduction or expansion.

Everyone knows that an item which contributes to covering part of overhead contributes to increasing the net profit of the firm. All products do not contribute equally to profits. Thus when information is given in detail by departments and by products, eliminating the fixed costs from the computation, it allows management to make decisions as to what item is more profitable, what lines should be promoted and to what extent a non-profitable item can contribute to fixed costs. Hence pricing is facilitated and selective selling can be made. Undoubtedly, absorption costing could give the same information, but with much more clerical work, since its procedures are not directed to that end.

Due to proper classification of expenses, it is possible to place responsibility for variable and fixed costs control. Fixed costs are no longer classified by departments or function but by item of expenses.

Cost information should not be more expensive than the value of its service to management. More and more companies are developing costs specifically for each intended use. By developing cost information only when it is useful, direct costing has this advantage of simplicity and of not being too costly.

Inventory valuation derived from direct costing does not always comply with generally accepted accounting principles. However, due to the fact of its usefulness for internal reporting, this inventory valuation should not be an insurmountable problem for external reporting. To bring inventory to the figure which is in conformity with accepted practice is very simple. All that has to be done is to add to or subtract from the inventory figure obtained by direct costing, the amount of fixed costs that would otherwise have been taken into account under absorption costing.

To do this, however, is to resort in large measure to the absorption costing method, except that in direct costing it is done probably once a year—while it is done all the time in absorption costing.

DISADVANTAGES OF DIRECT COSTING

The most difficult problem in direct costing seems to be the classification of costs as variable or fixed. Even in practice some costs that pertain to the cost of production are classified as periodic costs due to the complication resulting from their allocation to products. A good example of this would be discount on purchases which are often classified as period costs because of the difficulty of assigning them to the proper batch of raw material purchased.

The principle underlying the classification of variable and fixed costs is the following: fixed costs are those providing the capacity to produce and expiring with the passage of time, regardless of the extent to which the facilities are actually utilized. All other costs traceable to products are considered variable costs, because if there had not been any production, such expenses would not have been incurred.

Consequently fixed expenses are treated as profit reduction items not as value creating items. This position is quite objectionable since if there were no production facilities, there would not be any production. Facilities are used to create values, not to reduce profits.

Moreover some expenses usually considered fixed are sometimes variable, whereas other expenses ordinarily classified as variable are fixed. Two examples can be cited to explain this assertion. The depreciation charge takes into account wear and tear of the facilities and their obsolescence. Only the latter can be said to expire with the passage of time. The first two are due to the use of facilities. Consequently, they are as variable as direct material or direct labour.

In some companies a large part of direct labour is fixed and will not vary with production volume. This is usually true of the highly skilled groups of workers. Whether or not we should separate these expenses into two classes, variable and fixed, depends upon the proportion that these costs bear to the total cost of production.

In its essence direct costing is an application, at the accounting level, of the traditional marginal analysis which may be stated this way: marginal cost is attained at the level of output where the incremental unit cost (which is traditionally presumed to increase as output increases) is equal to the price per unit which may be obtained for that output.

The conclusions reached by marginal analysis as to price policy and output are applicable only to short run analysis and are valid only in the short run. Obviously, a firm taking into consideration only variable cost in pricing its products would in the long run gradually consume its investment in long life assets and cease to exist as a going concern. Consequently, even if variable and differential costs are important for short run decisions, management cannot ignore the aggregate costs in planning the future strategy of the business.

It is often advanced that management must strive to maximize profits in the short run. However, it seems that nowadays management has another motivating force—the desire to assure continued existence of the business with reasonable profits rather than to let it come to disaster by striving to maximize profits in the short run.

As previously mentioned, direct costing understates the value of inventory for reporting purposes. In the balance sheet, the working capital ratio is thus understated. This situation might create some problems for credit purposes.

Finally, if a changeover to direct costing is made, comparison with any preceding year is impossible, unless a good deal of extra work is done to change the past periods to a direct costing basis. Direct costing also precludes comparison with other firms in the same industry who have not adopted this method.

EXHIBIT I

	1953	*1954*	*1955*	*1956*
Production	5,000	3,000	4,000	5,000
Units sold	5,000	5,000	3,000	6,000
Variable Manufacturing Cost (Unit)	$ 1.50	$ 1.50	$ 1.50	$ 1.50
Variable selling and Administrative Costs	.50	.50	.50	.50
Fixed Manufacturing Costs	1.00	1.00	1.00	1.00
Selling Price	5.00	5.00	5.00	5.00
Total Fixed costs	5,000.00	5,000.00	5,000.00	5,000.00
Fixed selling Administrative expenses	2,000.00	2,000.00	2,000.00	2,000.00

PROFIT AND LOSS STATEMENT

Absorption Costing				
Sales	$25,000	$25,000	$15,000	$30,000
Cost of Sales	12,500	12,500	7,500	15,000
	$ 2,500	$12,500	$ 7,500	$15,000
Unabsorbed Overhead		2,000	1,000	
Gross profit	$12,500	$10,500	$ 6,500	$15,000
Fixed and variable General expenses	4,500	4,500	3,500	5,000
Net Income before taxes	$ 8,000	$ 6,000	$ 3,000	$10,000
Direct Costing				
Sales	$25,000	$25,000	$15,000	$30,000
Variable Manufacturing Costs	7,500	7,500	4,500	9,000
	$17,500	$17,500	$10,500	$21,000
Variable general expenses	2,500	2,500	1,500	3,000
Marginal Income	$15,000	$15,000	$ 9,000	$18,000
Fixed Manufacturing Costs	5,000	5,000	5,000	5,000
	$10,000	$10,000	$ 4,000	$13,000
Fixed General Expenses	2,000	2,000	2,000	2,000
	$ 8,000	$ 8,000	$ 2,000	$11,000

For further reading

SOME COMMENTS ON THE APPLICABILITY OF DIRECT COSTING TO DECISION MAKING, by Wilber C. Haseman & Morton F. Moss, The Accounting Review, April 1957.

PERSONALS

E. C. PERKINS, formerly of the Department of Defence Production in Ottawa, has been appointed Comptroller of York Gears Ltd., Toronto. Mr. Perkins was a Director of the Ottawa Chapter.

T. W. ADAIR, R.I.A., has joined Rothwell-Perrin Lumber Co., Portland, Ontario, as Comptroller. Formerly with Ottawa Credit Exchange Ltd., Mr. Adair was a Director of the Ottawa Chapter.

R. K. ROY, R.I.A., has been appointed Assistant Secretary-Treasurer of the Canadian Furnace Co. Limited, Port Colborne, Ontario. Mr. Roy was previously Systems Analyst with Algoma Steel Corporation Ltd., Sault Ste. Marie.

Books in Review . . .

MANAGEMENT PLANNING AND CONTROL: THE H. J. HEINZ APPROACH

By Research Arm of Controllers Institute of America, Controllership Foundation, Inc., New York. 1957. pp. 107 and Index. $3.00.

Reviewed by Lawrence W. Bennett, C.P.A., R.I.A.

This carefully prepared case history of management planning and control at the H. J. Heinz Company was prepared initially by executives of that company for presentation at a conference of the Institute. It was so well received and stimulated such active discussion, that arrangements were made for the Research Arm of the Controllers Institute to expand and publish the material.

The result is a clear presentation of policies, methods and practices (as independently observed and appraised in expanding the material) in operation at the H. J. Heinz Company. The high degree of decentralization of managerial responsibilities and authority should make it of interest and value to small and medium-sized business as well as to the management team of larger corporations.

The monograph is divided into four parts entitled: Management Planning and Control Objectives and Methods; Cost Planning and Control Practices at H. J. Heinz Company; Profit Planning, and Cost Estimating in Planning and Control. Among the important points developed are: the distinction between "planning" and "control", placing of the responsibilities, differentiating between long-range and short-range planning but co-ordinating them, and measuring performance against plans. Much of the study is a description of the way in which the annual operating plans and budgets are developed and used by all levels of management and supervision. The planning and control roles of the cost accounting, cost estimating and profit planning departments are reported in some detail.

The close margins in the food processing industry, dependence on "Mother Nature", seasonal manufacturing operations, spread of factory locations, and wide variety of production, all illustrate the strategic importance and complexity of planning, prompt reporting and effective control to the H. J. Heinz Company.

Management can use the company's successful experience in planning, managing and measuring performance in business, as a check-list against their own requirements and results. Members of the Comptrollers Division will find the 21 exhibits and six appendices of some interest.

FINANCIAL REPORTING IN CANADA, Second Edition

By the Canadian Institute of Chartered Accountants, Toronto. 1957. pp. 115

Reviewed by Milton Howard, C.A.

This book comprises a classified summary of the financial reports of 300 Canadian industrial and mercantile companies for the years 1953 to 1956 inclusive. The reports are summarized in such a manner as to illustrate trends and developments in the financial reports of the companies during these years.

Following a general introduction, the items comprising the balance sheet, surplus account, profit and loss account and the auditor's report are treated in 50 comparative

tabulations covering each of the items in the relative reports. The number of companies dealt with and the percentage of companies adopting each classification are illustrated in the tables. This permits an easy determination of the percentage of companies adopting a similar classification of accounts together with the trend from year to year of the period covered.

Each table is followed by a comprehensive outline of the procedure adopted in presenting the analysis together with reasons for and/or against the adoption of certain principles of presentation.

On the whole, the book evidences considerable study and thought on the part of the compilers and, while we do not believe in uniformity for uniformity's sake, the introduction of terminology tending to make the financial statements more readily understood by the banker and businessman is to be encouraged whenever possible.

The book should prove of interest to anyone concerned in the preparation or review of financial reports.

STANDARD COSTS: HOW THEY SERVE MODERN MANAGEMENT

By Clinton W. Bennett, Prentice-Hall, Inc., Englewood Cliffs, N.J. 1957. pp. 515 including Index. $10.65.

Reviewed by George Moller, D.Jur., C.A., R.I.A.

In the preface, Mr. Bennett, whose name is familiar to all readers of accounting literature, states that his book should be helpful:

"(1) to industrial executives in the day-to-day job of guiding their business successfully;

(2) to industrial accountants and engineers in their jobs of providing their companies with appropriate techniques;

(3) to consultants as a reference work; and

(4) especially to students of accounting, industrial engineering and general business management . . ."

Mr. Bennett speaks with cause, for the book is more than just a treatise on standard costs in the narrow sense of the term.

Though no longer original, the standard cost approach to management accounting is still practical and effective. In the author's opinion, the modern standard costs plan is the successor to "scientific management". As he sees it, the standard costs program is "not merely a system of cost examination but a rounded concept of management in industry." In the first chapter, the need of different costs for different purposes is acknowledged and expounded. The closing paragraph, "Balancing Wages, Prices, and Profits", sounds promising, but actually falls short of expectations.

The text advances through the chapter headings: Determining the Requirements of the Company, Organizing the Business for Effective Controls, Setting Up the Order and Planning System and Designing the Cost and Accounting System.

The individual "Developing of the Cost Formula" described in Chapter 7 includes a short discussion of costs and selling prices which does not exhaust this intricate relationship. The chart of accounts is discussed in the following chapter, illustrated by clearly presented tables of charts of accounts and flow charts.

From here, the sequence switches to "Preparing the Budgets" which is described as

the foundation of the standard cost plan. "Determining the Standards" is a core chapter covering 48 pages. This chapter is followed by one on "Rewarding the Worker", connecting labour-management relations with standard costs and covering job evaluation as well as incentive wage systems.

Chapters 12 to 15 deal with Determining the Costs of Products, Developing Current Cost Information, Handling the Costs in the Accounts and Cost Variances. The latter chapter is surprisingly short and lacks appropriate illustrations of the involved and varied techniques in variance accounting.

The chapter on "Statements and Reports" points out that reporting by businessmen is notoriously poor and must be improved if business wants to receive recognition for its great contributions to the national welfare and comfort. A case illustration concludes this well-written and informative section.

The concluding chapter of the book, "Profit Planning", could have been expanded in the interest of the broad concept underlying the author's approach. It might have included some linking of a standard cost program with the concept of planning and control as developed by the Controllers Institute of America; or shown the use of standards in connection with measuring performance by return on capital investment and, more specifically, on capital employed; or might even have discussed the place of standard costs in measuring productivity.

But this may be asking too much from an otherwise valuable contribution to modern accounting literature, which will make worthwhile reading for all and particularly for those previously mentioned.

For the student, questions and problems are included in the last two chapters of the volume. An extensive and attractive index completes the work.

McGILL TO HOLD SUMMER SCHOOL IN EXECUTIVE DEVELOPMENT

To help middle management men in industry realize their full growth potential, McGill University will hold a four-week executive development session this summer from May 26 to June 20.

By setting out the whole pattern of interrelated executive functions and responsibilities, the program is designed to help each participant shoulder more responsibility and meet higher standards within his own sphere of activity.

The course covers the four executive areas of finance, marketing management, business policy and human relations. In finance, the viewpoint of the financial officer and some of his problems will be considered. The role of marketing, patterns of competitive marketing strategy, and the procedure and decision-making areas of sales programming will be surveyed in the marketing study. Developing policies best for the company as a whole will be a major aim of the business policy section and in human relations, the emphasis will be on diagnosing and treating human problems in industry.

Through lectures, case studies, seminars, conferences with faculty members and informal discussions, the participants, representing many executive positions in a wide variety of industries both large and small, will be able to exchange information, ideas and experience on common business problems.

Further information on the course can be obtained by writing Prof. Eric W. Kierans, Director of the School of Commerce, McGill University, Montreal.